Rogers Communications Inc.
Fourth Quarter and Full Year 2020 Results
Conference Call Transcript

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Speakers:

Joseph Natale
President, Chief Executive Officer & Director

Tony Staffieri
Chief Financial Officer

Paul Carpino
Vice President, Investor Relations

Paul Carpino:
Good morning, everyone, and thank you for joining us.

Today, I'm here with our President and Chief Executive Officer, Joe Natale, and our Chief Financial Officer, Tony Staffieri.

Today's discussion will include estimates and other forward-looking information from which our actual results could differ. Please review the cautionary language in today's earnings report and in our 2019 Annual Report regarding the various factors, assumptions, and risks that could cause our actual results to differ.

With that, let me turn it over to Joe to begin.

Joseph Natale:
Thank you, Paul, and good morning, everyone.

It's been almost a full year that our country and our world have been living through a health crisis unlike anything we have seen in many generations. The impacts to society and to the economy as a whole have brought many new challenges, new perspectives, but also opportunities to all of us. It's encouraging to see vaccines starting to roll out across the country, and although early days, we can see light at the end of the tunnel, but we know the effects of the pandemic will be with us for some time. We recognize more fully than ever the role that our networks play in underpinning every aspect of our society and our economy, and I'm incredibly proud of the role that our teams continue to play in supporting Canadians and the Canadian businesses, large and small, through every phase of this pandemic.

Today, I'll take you through some highlights of the quarter, followed by a discussion of our continued success in adapting to meet the needs of our customers while streamlining costs. Finally, I'll provide some thoughts on what we can expect heading into 2021 before turning it over to Tony to provide more detailed commentary.

Despite the spike in the second wave across the country, and a new series of restrictions that have been rolled out and expanded in December in certain provinces, we saw continued improvement in many areas of our business.

Our team executed strongly in Q4, delivering a number of sequential improvements, including margin expansion across the businesses driven by continued operational efficiency gains, solid customer additions, excellent performance from our cable business, solid Adjusted EBITDA improvements, and strong free cash flow.

In Wireless, we saw strong loading in postpaid, with net additions of 114,000. Though the pandemic continues to impact roaming revenue, with most travel still paused and no immigration growth as borders are essentially closed, our disciplined approach to digitization and cost management led to an Adjusted EBITDA service margin up 370 basis points from the same time last year.

Over the last quarter, we performed effectively across both traditional and digital sales channels. The preparation and collaboration across our teams ahead of our critical selling periods resulted in our most successful Black Friday ever. Over Boxing Week, however, the extended COVID-19 lockdowns in Ontario and Quebec in December did have some impact on service revenue, ARPU, and additional loading.

Despite the competitive environment, our teams have managed churn well, and our monthly postpaid churn improved seven basis points, the lowest it's been in over a decade.

Consumer adoption of Rogers Infinite's unlimited data plans has continued to grow, increasing by approximately 300,000. We now have 2.5 million subscribers, and growth in our unlimited plans is up almost 80% this year. We continue to see positive ARPU, churn improvement, and lower cost-to-serve performance in this important base of customers.

In terms of wireless network excellence, a year ago this month, Rogers was the first provider to launch a 5G network in Canada. Today, through the hard and disciplined effort from our team, we've delivered 5G to more than 160 communities across the country. From Fredericton to Fernie, from Laval to

Lethbridge, Rogers operates Canada's largest 5G network, and proudly, for two quarters in a row, Q3 and Q4, Ookla awarded Rogers the most consistent national wireless network in Canada.

In addition, Umlaut recently scored our 5G network in the Greater Toronto Area, Canada's most populated centre and a hotbed for technology and innovation, with top marks for reliability, responsiveness, and download/upload speed. In 2020, Umlaut also ranked Rogers as the best wireless network in Canada for the second year in a row, and in J.D. Powers 2020 Canada Wireless Network Quality Study, Rogers ranked number one in the West and Ontario.

Our technology leadership continued in December as we launched the first standalone 5G core in Canada powered by Ericsson, beginning with Montreal, Ottawa, Toronto, and Vancouver. The standalone core, considered the brain of the network, will propel us forward in bringing the full potential of 5G to Canadians. This positions the business and our customers well as we move into a 5G world, which, as evident in more advanced 5G countries, will significantly increase data use and lead to new applications and use cases.

Switching to Cable, we saw healthy increases in both service revenue and Adjusted EBITDA despite the traditionally quieter period in Q4 as customers and their families continue to work and learn from home and are able to benefit from what recent Ookla results have recognized. Ookla ranked Rogers as the most consistent national provider in Q4, fastest in our cable footprint in Q3, and offering one-gigabit speeds across our entire footprint.
The number of Ignite TV subscribers is up 67% year-over-year as we continue to provide customers with more of the compelling content they want and make it easier for them to enjoy their entertainment needs. In 2020, we introduced Ignite SmartStream, which offers customers their favourite streaming service all in one place. We launched 14 new applications and subscription video-on-demand, added Amazon music with thousands of playlists and stations, and will continue to grow our content library and make Ignite TV and Ignite SmartStream the destination of choice for our customers, with an upcoming roadmap of new apps that is very compelling from both a customer and a business opportunity point of view.

Finally, in Sports and Media, our revenues continue to feel the impact of the limited live sports and truncated seasons as the second wave continues, but we managed our operational costs effectively and expanded margins. We are very excited that the NHL hockey season has now started. The creation of a unique Canadian division is important for both fans and our performance, and the first half of the NBA season is underway with Sportsnet broadcasting half the scheduled Raptors games.

We generated solid free cash flow in the quarter, up 14% from a year ago, even as we continued to build out our digital capabilities and launch Canada's first and largest 5G network. Given our strong balance sheet with $5.7 billion in liquidity and exceptional wireless, cable, and sports and media assets, we feel well-positioned in both the current environment and in the long term when the economy fully recovers.

As we move through 2021, we will continue to build on the accelerated changes we have made in the past 10 months; the changes we've made to meet the evolving needs of our customers. We see that consumer habits are changing, some in the short term due to pandemic restrictions. Others are far more permanent changes that assume a deeper role with digital and online channel support. Our teams have come together with incredible focus in the past year to rethink and reinvent how we serve our customers, and I'm proud of how they rose to the occasion and embraced this incredible opportunity.

Let me provide a few examples of our leadership in this area.

We accelerated our digital-first plan and added self-serve options, offering a better experience for customers, while streamlining costs. At the end of the year, overall digital adoption stood at 84%.
We are unique in offering the convenience of seamlessly ordering online and picking up in store, often the same day, with our new Rogers Express Pickup service. Customers can shop when and where they want, while still having the opportunity to work with one of our in-store experts using all the necessary health precautions.

Those staying at home entirely can take advantage of our industry-leading Pro On-The-Go service now available in the Greater Toronto Area, Greater Vancouver, Ottawa, Calgary, Edmonton, and parts of Southwestern Ontario. Customers can get their new device quickly, safely, with free contactless delivery and one-on-one support on a video call.

Our field technicians also no longer need to always travel to a home. Through our virtual assistant's app and capability, our technical support agents are now able to resolve customer issues right away more often, reducing the need for even rolling a truck, and our Ignite Self-Installation program provides safe, easy, no contact way for customers to install our Ignite Internet and Ignite TV services, with over 93% of customers choosing to easily install our products themselves.

Since launching our Customer Virtual Assistant at the end of 2018, we've now managed more than 7.2 million conversations, up 39% since last quarter and nearly 133% since last year. With continued developments in AI, we expect more calls will be redirected, reducing costs and leaving our agents to spend time with customers who have the most important and more complex needs.

As we've enhanced our digital capabilities and customers shift to online options and self-install, we know the calls we do get are even more important. We're proud that our teams are now all based in Canada, and we've invested to make sure they have the tools, they have the training that they need to continue to deliver the capabilities to our customers. Their level of engagement is best-in-class; their expertise in our products and services and their ability to relate to the needs of our customers as part of their community. All of this provides us with a competitive advantage, directly impacting lifetime value, ARPU, churn, and supporting the future of our business.

This past year has brought some important—has brought home the importance of productivity like never before. As we invest in improving customer experience, we continue to invest in expanding and upgrading our networks. As we work to rebuild our economy, strong digital infrastructure and investments in 5G are incredibly critical. We need them to fuel productivity, fuel innovation across the country, both in the coming months and in the longer term, as Canada resets its competitive landscape.

What will this all mean for our Company as we move forward into 2021? While we will continue to experience uncertain needs due to COVID-19, our long-term vision has not wavered. We are focused on investing in core assets to generate long-term value for our shareholders, and, in fact, we will be driving further network investment this year. Our priorities are centred on expanding our world-class networks, delivering a best-in-class customer experience, and building a high-performing, inclusive culture, all underpinned by our longstanding commitment to be a strong, socially and environmentally responsible leader in our communities.

While Q1 is traditionally the slowest quarter for subscriber loading, intensified this year by lockdowns in some provinces, we have some critical advantages heading into 2021. We have far better capabilities and deeper understanding of how each of our markets are likely to react in a pandemic than we did a year ago, and importantly, we've honed our ability to be agile and pivot our services to where our customers need us to be. This will continue to serve us well as we recover from the pandemic, and frankly, far beyond.

In Wireless, we're heading into a 5G world with the most wireless subscribers in Canada, the largest 5G network, the largest iPhone base, and the largest number of customers on unlimited plans. This puts us in a very strong position. Since launching our unlimited plans 18 months ago, we have completed a majority of our overage revenue melts. Versus our peers, we are well-positioned for future growth as we complete the overage transition, which we anticipate will take place by the end of the second quarter of this year. Additionally, with the largest roaming operation, we expect to be the major beneficiary when travel returns, further supporting Wireless service revenues and ARPU growth in the future.

In Cable, we're anticipating both revenue and Adjusted EBITDA growth in the coming year. This continues to be a stable business. We will further benefit from the comprehensive Comcast product roadmap, including the benefits of self-install capabilities I just mentioned.

Our Internet business already delivers one-gigabit speeds across the entirety of our footprint, so we have a long runway ahead of us since our hybrid fibre-coax network is not expected to require massive investment to generate the speeds customers need now or in the future.

Finally, in Media, we have an unparalleled mix of Canadian sports assets. We anticipate continuing to manage the business efficiently in the near term, and we are confident consumer and advertising demand will be strong when schedules and live audiences return to normal.

All these assets are supported by our healthy balance sheet. The Company remains financially strong and is well-positioned to increase investment and capitalize on the future recovery and long-term growth opportunities.

In short, while 2021 will still be a year marked by some uncertainties because of the pandemic, we believe the combination of our long-term vision, our second-to-none set of assets; the improvements and efficiencies we've applied in 2020; and our strong, capable, resilient teams will enable us to meet the needs of our customers and our country now and into the future.

With that, let me turn the call over to Tony. Tony, over to you.

Tony Staffieri:
Thank you, Joe, and good morning, everyone.

Our fourth quarter results reflected healthy, sequential gains and margins across all our businesses, excellent free cash flow growth, and strong revenue growth in Cable. The expanded late-quarter lockdowns during the key Boxing Day selling period did affect Wireless revenue late in Q4, but margins were very strong.

Let me break down results in each of the businesses a bit more, and then provide some commentary on our outlook for the first quarter.

In Wireless, margins were strong despite the pressures on service revenue and Adjusted EBITDA associated with the extended and expanded lockdown and the ongoing impact of limited roaming revenue. Service revenue declined 8% year-on-year driven by roaming revenue declines of $75 million, or 67%, from one year ago.

Additionally, as we continue the transition to Rogers Infinite unlimited data plans, overage revenue was down $40 million, or 54%, year-on-year. Importantly, overage revenue is now only about 1.5% of service revenue, and we continue to anticipate overage melt to continue to impact our year-on-year growth rates until the end of the second quarter. Notably, this timeline is in line with our original expectation on the launch of unlimited plans back in 2019 where we estimated the impact on our financial growth rates to take six to eight quarters to overcome. The extended and expanded shutdown in late December further impacted service revenue versus Q3, as well as on a year-over-year basis.

In addition to the reductions in roaming and usage revenue, there was an additional $30 million decline from the fourth quarter last year which relates to the impact of one-time fees for activations and related items. We attribute the decline in these fees to the COVID environment in the fourth quarter, and in particular, in the final weeks. We expect these fees to resume as consumer activity increases in the future.

On a year-over-year basis, the blended ARPU decline of just under 10% was most notably impacted due to reductions in the roaming and overage revenues, as well as the decline in one-time fees as I mentioned. To provide some additional transparency on this, our normal, annual, inbound and outbound roaming revenue prior to the pandemic was approximately $500 million, or about $4 of blended ARPU, so we should see a decent improvement in blended ARPU as roaming and the economy recovers. Sequentially, blended ARPU was down about $1, and this, again, is a result of the reduced fees from lower consumer activity mentioned above.

While the late-quarter shutdown also affected subscriber activity, including during the Boxing Week period, Rogers still delivered solid loading and had a strong Black Friday.

Postpaid net additions were a healthy 114,000, and our unlimited customer base grew sequentially again by another 300,000. This base now stands at an impressive 2.5 million subscribers, and continues to position us well as 5G networks and capabilities develop. Postpaid churn improved to 1.19% compared to 1.26% last year. The improvement reflects strong execution by our teams in the COVID environment during a very competitive quarter.

Although we can't control the revenue impacts driven by the pandemic, we continue to control our costs and overall efficiency. Despite revenue being down 8%, Wireless Adjusted EBITDA only declined 3%. This resulted in continued improvement and Adjusted EBITDA service margin to 63.2%, reflecting an improvement of 370 basis points from last year.

Clearly, our efficiency initiatives are gaining some traction, which should further underpin strong revenue flow-through and profitability growth rates when revenue recovers.

Overall, we're pleased with how our teams continue to navigate our Wireless business in this unprecedented environment. While we currently remain in lockdown in both Ontario and Quebec, we've built out our competencies since the pandemic impact started accelerating 10 months ago. We are now very well-prepared to support customers with advanced digital capabilities, have all our call agents working from home, online ordering with same-day pickup, and are providing home delivery options that are being well-received by our customers.

Moving to Cable, revenue increased 3%, driven by an increase in ARPA, as well as more customers transitioning to our Ignite Internet and TV offerings, as well as modest service pricing adjustments. Homes passed and customer relationships each grew year-over-year and sequentially. While Internet and Ignite TV net additions were down year-over-year, sequentially, Internet net additions increased to 20,000, and Ignite TV net additions almost doubled to 71,000.

Adjusted EBITDA grew nicely, up 5% year-over-year as a result of the increased revenue, as well as continued improvement in cost efficiencies. This gave rise to margin of 51% this quarter, up 60 basis points from last year.

We continue to see improvements in capital spending efficiency as well, with self-install now representing over 93% of all installations and ongoing improvements in hardware costs.

CapEx intensity for Cable remained at 22% for the second straight quarter, and, as a result, cash margins for Cable were at 29%. For the full year, Cable capital intensity was 24%, down from 29% in 2019 and 36% in 2018. We believe that these improvements are sustainable, and we continue to expect to operate in the low 20% capital intensity range for the foreseeable future.

In our Media business, revenue decreased by 23% year-over-year as a result of reduced live sports programming, primarily from delays to the start of the NHL and NBA seasons, and softness in the advertising market due to COVID-19. Media Adjusted EBITDA increased by $60 million from last year primarily due to the delayed start of major sports leagues and lower general operating costs as a result of reduced operating activity.

On a consolidated basis, total service revenue was down 7%, and Adjusted EBITDA was up 4%. If you exclude the impacts of roaming and overage, we would have been down 3% in revenue and up 11% in Adjusted EBITDA.

COVID-19 impacts in Q4 were notable, with estimated impacts of $285 million in revenue and $60 million in Adjusted EBITDA. On a full year basis, you can see how meaningful the effects of COVID were to our business. We estimate revenue for the year was down $1.4 billion in 2020 and Adjusted EBITDA was down $500 million. These are meaningful disruptions to our business and our customers, but our teams have managed these impacts well.

In dealing with these significant declines, we established a $90 million provision for bad debt in the second quarter last year. While it continues to be difficult to predict how consumers and businesses will be affected by the extended lockdown, I'm pleased that the performance to date within our bad debt allowance is currently running better than anticipated, and our provision continues to offer appropriate and sufficient coverage as the economy continues to work its way through the COVID environment.

Capital expenditures in Q4 were $656 million, up 30% sequentially as we played catch up on some projects that were deferred due to the pandemic. With this increase, capital intensity was also up sequentially to 17.8%. We expect to increase our CapEx in 2021 from the $2.3 billion spent in 2020 as we accelerate investments in our 5G and broadband networks, and I'll provide a bit of colour on that shortly.

Cash income taxes increased this quarter as a result of the timing of installment payments. As our base quickly moves to installment plans for their handsets, this results in expected earlier taxable event, which is one-time in nature. As a result, our cash tax rate as a percentage of Adjusted EBITDA was 11% in the quarter, up sequentially from 5% in Q3. We will see our cash taxes temporarily increase in 2021 as we continue to transition to a device-financing business model, and I will comment on our outlook momentarily. Free cash flow for Q4 was $568 million, up 14% from a year ago, but down 35% sequentially as a result of the higher CapEx and cash taxes.

In terms of financial strength, we ended the year was $5.7 billion of available liquidity. We also returned $253 million in dividends this quarter and $1 billion for 2020. Our weighted average cost of borrowing was 4.09% as at December 31, 2020, and our weighted average term to maturity was 12.8 years. In our focus to maintain a strong balance sheet, we prudently managed our borrowings to balance term and cost of borrowing to what we believe is an optimal mix.

Turning to 2021, we continue to hold off on providing annual guidance at this time. The COVID conditions that led to our withdrawal of our guidance back in April of 2020 continues today, and there is little, if any, further clarity of the impact of the pandemic on our business and its recovery. That said, we will continue our approach of providing the quarterly transparency we have provided since the pandemic commenced in Q1 last year until such time that a useful and credible guidance range can be estimated.

While we have reasonably good insights as to how our business may perform on a quarterly business, we will need better visibility on the progress of lockdowns and the resumption of growth drivers in order to have a reliable full year outlook. These drivers include roaming, economic recovery, and resumption of immigration to Canada, to name a few. As you saw in Q4, the need by provincial governments to quickly implement additional safety measures even late in the quarter can impact results. However, I think it's important to reiterate that while we can't control near-term events such as additional lockdowns or timing of vaccinations, our teams have adjusted significantly in terms of how to operate in this volatile environment. Unlike Q1 of 2020, Q1 this year will reflect a full COVID quarter in which there are broader and extended lockdowns.

In our Wireless business, as you have seen in the past years, the first quarter has become a very quiet loading period for the industry even when stores are operating under normal conditions. With the additional lockdowns in effect in both Ontario and Quebec continuing into February, we anticipate that Q1 will likely be quieter than normal in wireless loading and service revenue opportunities. Over the past two years, you have seen us approach the Q1 environment with less promotional activity given the moderate demand environment, and that is always our approach. Regardless of the demand environment, we are in a strong position to provide first-rate service to our customers through our significantly expanded digital capabilities and services such as Express Pickup and Pro On-The-Go.

We believe ARPU will improve its year-on-year profile so that the percentage decline will be less than what we saw in Q4, although we may likely see a sight—a slight sequential decline due to the seasonality of ARPU variables.

With overage revenues, we are approaching the end of the impacts of the overage melt associated with our shift to unlimited plans. We believe we are well ahead of our peers in completing this transition, and we anticipate Q1 overage to be down $25 million on a year-over-year basis. We expect to be through the majority of that—this transition by the end of Q2, and as we have highlighted in the past, underpinning these plans are better ARPU opportunities, lower churn, and improved customer satisfaction by driving the simplicity dividend for them. Lower roaming revenue will continue to impact revenue and ARPU, and we expect it will be down approximately $75 million year-on-year in the first quarter.

In our Cable business, we expect additional year-over-year growth in revenue, Adjusted EBITDA, and Adjusted EBITDA margins, as we benefit from efficiency gains and modest price increases. While this business is not completely immune to the economic pressures related to the COVID lockdowns, it is more stable as customers continue to rely on their home connectivity and are moving to higher speeds to support their business and family needs. Additionally, CapEx intensity is expected to be approximately 22%, down from 26% in Q1 last year as benefits from self-install and the Ignite TV platform continue.

In our Sports and Media business, after a quiet Q4, sports programming is ramping up for the NHL and NBA in Q1, and fans and advertisers alike will welcome their return. As a result of the increased live sports broadcasts, programming fees will increase in Q1, but advertising revenue should also start to make a modest recovery from Q4 levels. Our best estimate at this point is that revenue and Adjusted EBITDA for our Media business will be in the same absolute dollar range as Q1 last year. Of all three leagues, MLB is expected to have a full 162-game schedule starting in April, and at this point, we do not know if the Blue Jays will be playing at the Rogers Centre or if any games will benefit from in-stadium attendance and revenues. This could result in additional losses for the Jays for the full year, but we will continue to monitor how the season unfolds and provide updates as appropriate.

In terms of CapEx, we are planning to increase our investment in 2021 from the 2020 levels as we continue to enhance our cable and 5G networks. Although we're not providing full year guidance at this time, we anticipate CapEx in the first quarter will be at about the same spending level as Q1 last year, and then will ramp up from that level in the following quarters. By the time we report our Q1 results in April, we could have additional clarity on the impacts of lockdowns on our CapEx activities, and we may be in a position to provide additional guidance on our 2021 CapEx expectations at that time.

On cash taxes, as seen in Q4, we will continue to reflect our transition to a device-financing business model that results in earlier recognition of equipment revenue for income tax purposes. As a result, we expect a final $325 million cash tax installment in the first quarter. As mentioned earlier, these advanced tax payments are one-time in nature, and by the end of this year, we expect our ongoing cash tax rate to be back to a range of 8% to 10% of Adjusted EBITDA.

Finally, free cash flow in Q1 will reflect the impacts of higher taxes, and we expect this will be the only major reason it will be down on a year-over-year basis.

In summary, I hope this extensive quarterly transparency gives you some good insight on the business until the time we return to annual guidance. As we head into 2021, we're very proud of how the Rogers' team is navigating the current environment. While there continues to be uncertainty in the near term as to how the ongoing impacts of COVID will influence the Canadian economy, we have implemented significant changes throughout the Company over the past 10 months, and we believe we are positioned very well to manage through the short-term volatility and as the economy recovers.

Let me now turn the call back to the Operator to commence with our Q&A.

Operator:
Our first question comes from Vince Valentini of TD Securities. Please go ahead.

Vince Valentini:
Yes. Thanks very much.

Tony, let me push you a bit on the ARPU in Q4 and the commentary you've given. First off, can you give us a bit more colour on what this $30 million of lower consumer activity impact is, because you keep mentioning activation fees, but I mean, if I assume $40 as an activation fee on average, I mean, sometimes you waive those fees, but at $40, that would be 750,000 gross ads that would be needed to be down year-over-year to add up to $30 million, so there's got to be something other than just activation fees in there, and one thing I don't hear you talk about in terms of the ARPU trends in Q4 being a bit worse than Q3 is, I think we all acknowledge there were some pretty aggressive promotional behaviour going on back in the August/September period as the lockdowns ended and everybody started jamming out promotions to try to catch up on sub adds.

Is there not a bit of an impact there from that as well that—as you have a full quarter of some of those subs that were loaded at lower price points that had a bit of a drag on Q4 ARPU relative to Q3, and if that's the case, can you or Joe give us some thoughts on the more recent activity we've seen, which seems to be a bit more encouraging in terms of some of those aggressive promotions being pulled from the market by all the incumbents, and even some price increases announced selectively by some of the wireless carriers, so a few different dynamics on ARPU, if you don't mind. Thanks.

Tony Staffieri:
Great. Thanks for the question, Vince.

A couple of things. In terms of the $30 million, comprises a couple of things. I mentioned the activation fees. There are price plan change fees, reconnection fees, but the other item that is rather significant are what we call the one-time promotional credits such as gift cards, and so it's that volume that we sort of saw down year-on-year.

Second part of your question relates to whether or not we saw pressure on underlying ARPU as a result of the promotional activity, and the short answer is yes, but at the margin. Those types of promotional activities played out in the flanker brands, and so while we saw good ARPU growth with moves from our customers and new customers to unlimited, what we saw was a bit of an erosion on ARPU as a result of those promotions. Net-net, it had a very slight, I would say, minor impact to our underlying ARPU and service revenue trends in the quarter. If those were to continue, it would continue to have a growing impact, but what we saw in the marketplace is a pullback of those promotions after year end, and so we continue to be confident with the underlying ARPU growth profile for this year, but, of course, it will depend on market competitive intensity and how it plays out later in this quarter or into next quarter.

Joseph Natale:
If I can add a couple of comments, Vince, we saw some, to your point, really significant pricing aggression through Q4, and Tony's right in terms of how he unpacked it, but that level of aggression always creates froth in the marketplace. Team did well in terms of adding customers, but also the churn. You saw the churn down seven basis points, but as part of that, there is retention activity that's required. When customers see some of those prices in the window, then we get phone calls asking, hey, can I get that price, so there is a price plan impact that's—happens across the industry whenever we see that kind of aggression or promotion going on. I would say to you that the aggressive wireless price bundling with cable that we saw that happened and started in Western Canada in our minds is not

something—it's a bit of a zero-sum game. It's not something that—we've seen it before in different parts of the business here in Ontario and in other countries. It's not sustainable in the sense that it doesn't really do anything to change share dynamics in a structural way whatsoever, and the experience in the past is that all it does is it creates some of the ARPU pressure and economic impacts for everybody, so we're really pleased to see the return to discipline in Q1 around the pricing environment, and it's just normal that in Q4, that there is aggression in pricing.

It's just been the case in Q4 forever, but I think part of what played as well is we'll see how big the market was in Q4. Our sense, the market was somewhere between flat and down a few points, and so you get this sort of increased intensity when there's no immigration, there's no growth in the wireless market, and again, as that returns or that gets to a place where both penetration growth and immigration growth create more new net customers to the market, our experience has been that some of the pricing aggression remediates or dampens as a result of that.

Vince Valentini:
Thank you.

Paul Carpino:
Thanks, Vince. Next question, Arielle?

Operator:
Our next question comes from Jeff Fan of Scotiabank. Please go ahead.

Jeff Fan:
Thank you. Good morning. Hope you guys are well.

Just one question regarding the wireless competitive outlook, and another question on 5G. On just a competitive outlook, what we saw last year in 2020 has been alluded to. When the market opened up, there was a rush to promotional activities. As you kind of look out to this year, I mean, we are, hopefully, coming out of a lockdown sometime in Q1, maybe in Q2. How do you think about the competitive dynamics as you go into that middle of the year? Could we see a repeat of what we saw last year as—when the pool is still small and operators are chasing, or do you think the market is going to be a little bit more, perhaps, rational, waiting for some of the volumes to come back as you alluded to, Joe, and then on the 5G question, with—Rogers obviously is leading with respect to being first and the biggest on 5G. I'm just wondering when you think customers will start to really recognize 5G as a major differentiator versus 4G, and what are some of the indicators that you're looking at as positive signals for that to start to happen? Thank you.

Joseph Natale:

I think to your question, will this summer be like last summer, and I would say last summer was our first real understanding of what it felt like to come out of a pandemic. I mean, Jeff, there's no playbook for it, right? We just said, okay, game on. With people out and about, restrictions have been softened, lifted in many parts of the country. We saw data growth spike tremendously. Almost overnight, we saw 30% to 50% data growth, so there's a muscle reaction that says, okay, game on, let's go, and therefore, it creates a sense of froth growth and let's go make up for whatever didn't happen the previous few months.

I think we'd all look back at that period, and now we have a much more sanguine understanding of the real economic outcome—the lifetime value and economic outcome of that froth and that intense period, so I think our second time through it as an industry, I think it'll be a mix. I'm sure there'll be some level of aggression, but I think there'll be a much more rational, sanguine look at it and say, where are the value economics in this? Where are the value drivers in this, so that's my view, it's—and my hope is that there's not a third crack at it and that everything points to the fact that we'll come out—I think the biggest thing that you should take comfort in Rogers is that the capabilities we have now are vastly different than the capabilities we had a year ago.

I mean, our ability to transact online was, I would say, not terrific a year ago. Right now, I think it's very good, very strong, and the ability—I touched in my comments, the ability to order online, pick up in store, have it delivered to your doorstep, these are all things that the team worked hard to make happen through last year, and part of the reason you see some of the margin improvement is that we've been able to kind of impact some channel mix that has a far more attractive COA as a result, and therefore, we've got an ability to not just play the game differently, but to do so with better economics given the channel and COA characteristics that are leaning in our favour because of those capabilities the team worked so hard on, so that's the view on that.

In terms of 5G, 5G is—like 4G and other investments, we're in the investment cycle of 5G, and the capabilities are here and now in terms of the Ericsson investment that we made and the ability to light it up. The standalone core needed to be done at some point, and so we did it. We'll keep expanding it, etc., and as I said to you I think in the past, 5G will come in tranches, unlike 4G and 3G, which would be big, turn on the lights and now we have a brand-new capability, 5G will come in tranches.

The first tranche is already happening as 5G iPhones and 5G Samsung phones hit the market. We'll see more of those in our base, and given some of the capabilities of 5G architecture, we have a better ability to deliver a gig of data at a better unit cost, and when Canada sits at 3 gigs a month on average and the U.S. is closer to 10 and Korea is closer to 30 gigs a month, we're on that path, and the ability to do so in a way that's far more cost-effective is important to the economics of this industry, so that's sort of the first prize. The first prize is really kind of economics of bandwidth.

The second prize around 5G, I think, will be a series of applications that come to light along the way. One of them will certainly be fixed wireless access. I mean, you've seen the beginnings of what I would call 4G fixed wireless access in the industry. 5G will make those economics and that capability and population density enablement even better around that front. How far away is that? That's in the next, call it, one to two years away, and then the one that gets all the media attention is around one of the IoT low-latency type applications.

I would tell you that they're being worked on right now, and there is evidence of some of those already in the market like the automation we've done in the city of Kelowna, for example, that's been publicized, or some of the work that we're doing with mining companies around using 5G capabilities to create more automated capabilities on the mine site, etc. These are B2B applications, and they will happen as each of the B2B verticals matures, and some variables will mature more quickly than others, so, I mean, if you're looking for a full P&L on 5G, I think you get—a real material P&L is in that 3-year to 5-year time zone away, but we've got to invest now because these things take time and effort.

Seventy percent of the work in network investment is civil engineering work. Seventy percent is people digging trenches, acquiring sites, building towers, stringing fibre, and you can't turn those things on at a dime. You've got to do them years ahead of time, and that's what you're seeing coming from us as an organization, and along the way, what you're hearing us say as well is we've got a great network. We've got the best network, and we continue to get accolades for it all around.

It was on this call a few years ago that people were asking, how is the Rogers network doing? They had a lot of questions around capability and performance. I would tell you that we have best-in-class networks and we lead the industry, and it's more of a reinforcement that that's a crown that we're never letting go of, and 5G's also a sense of pride for this organization in being first and driving the largest opportunity, and having a sense of pride and innovation in the hearts and minds of engineers is important to the culture of a telecom company, so I think that's—those are the honest-to-goodness mindset reasons around it.

We're blessed in Canada to have very good 4G networks, LTE networks. When you look at the countries that have lackluster 4G networks, 5G's taking on a lot more prominence, so the contrast between 4G and 5G will come over time, as I've said, but one thing we had to do to get ready for 5G is we had to launch unlimited. We had to. We couldn't have an overage-based regime around the customers that want to use the most data that was in a paradigm that came out of 3G and 4G and expect to ever take advantage of 5G.

If you look at some of the early gaming apps, you can burn up 10 gigabytes in a few minutes, right, so my point is this was all the orchestration towards a 5G future, and I would say that later on this year, we'll probably, once again, have a bit of a 5G, where is it all going for Rogers discussion. Once we come out of the quiet period, around the spectrum auction, and I think that'll be a great thing to do, and Paul will set it up for the investment community.

Jeff Fan:
Thanks, Joe.

Paul Carpino:
Thanks, Jeff. Next question, Arielle?

Operator:
Our next question comes from Simon Flannery of Morgan Stanley. Please go ahead.

Simon Flannery:
Great. Thank you. Good morning.

Tony, I wanted to follow up on the operating leverage. It's great to see the margin improvement despite the top-line pressures here, and you've talked a lot about digital transformation and things like that. How should we think about, as the economy reopens, as travel recovers, how much of this improvement is permanent and how much will be kind of given back in terms of increased roaming costs and other things that you're not spending on currently, and on that roaming piece specifically, how much of it is attached to business travel returning, which might take a little bit longer than tourism? Thank you.

Tony Staffieri:
Thank you for the question, Simon.

I think with respect to leverage on costs, if I understood the question, what we should see as roaming returns, and some of the other items, is a very high flow-through rate to our margins, and so we currently have, even in a very low growth environment, plans to continue to expand margins, and so what we should see, as roaming returns, net of roaming costs, is a good, healthy flow-through rate in excess of 50%, and probably as high as 60% to put a rough estimate on it.

Simon Flannery:
Great, and what about other—are there other costs that you're—you were able to save on this year that may come back in terms of—as activity advertising, T&E, things like that that we should be aware of?

Tony Staffieri:
There are variable costs, of course, that are going to—as the market expands or the size of the market and our volumes increase, there are variable related costs, as Joe referred to, COA or COR type of costs. Those are variable in nature, but I think it's important to highlight that the quantum of them have come down, particularly as we move to more efficient channels like digital, and so, again, within the broader margin expansion comment that I made, we've captured those within that.

If I had to go through each of the specific items, I've talked about channel mix. I think it's important to highlight the margin improvement we've seen from moving to installment plans, and as volumes go up, we don't think that's going to erode. Obviously, that's going to depend on the economy, and then there are improvements that we're seeing throughout our businesses in the back office, again, as we move to more and more AI and automation in those areas.

On our Cable business, some of the areas that were seeing cost improvements—Joe mentioned self-installation. Number of service truck rolls has come way down, and that really gets at the operating efficiency of having completed some of the service calls the first time. We've had good progress on our content costs, and you see that in our P&L in terms of managing what was previously a continually escalating cost for us, and we've been much more creative and better executing in terms of those costs. Of course, in Cable, we have the digital capabilities as well improving, and the back office pieces that I mentioned earlier.

Hopefully, Simon, that (multiple speakers 54:57).

Simon Flannery:
Anything on the business travel?

Tony Staffieri:
Sorry. On the business travel, our expectation is when we look at the mix of it, generally, for us it ends up being about 50/50. Depending on the quarter, you may see spikes going to two-thirds, one-third either way, so it really is going to depend on when things open up. If we think about them in the back half of the year, towards the summer months, it would obviously be indexed towards consumer, and as we head back into the fall, the ratio or index heads back to business.

Simon Flannery:
Great. Thanks so much.

Paul Carpino:
Thanks, Simon. Next question, Arielle?

Operator:
Our next question comes from Drew McReynolds of RBC. Please go ahead.

Drew McReynolds:

Yes. Thanks very much. Good morning.

Joe, just to add to Jeff's comment or question on 5G and your comments, just update us in terms of your subscribers that are currently using your 5G network. Are there any data points you can update us on specifically on that?

Then secondly, on the CapEx, appreciate you don't want to quantify anything at this point. Are you able to, bigger picture, as you've done in the past, just comment on how you think CI generally trends both in Cable and Wireless? Are we still tracking to what has generally been guided to over the last two or three quarters?

Then lastly, for you, Tony, you've talked about looking at ways to get better recognition in the public markets at some of those non-telecom assets. Just wondering whether initiatives are continuing to move forward on that file. Thank you.

Joseph Natale:
Thanks, Drew.

On the 5G subscriber side, we have not disclosed any specifics, but what I would tell you just through sort of maybe more self-evident is that the 5G subscriber base is indexed towards the iPhone, and we have the largest iPhone base. The 5G subscriber base is tied to unlimited, and therefore, they are, by definition, our highest value, most data consumptive customers, so this really is about the very top decile of the market, and part of our energy around getting out there quickly is inside the—if you were to do a segment analysis of our base, we've got a very strong top end of the market base that we've had historically because of structural advantage around the iPhone, and going back, even, to when the Blackberry was a thing. I know it sounds ancient at this point in time, but like—so that base has a need for certain capabilities, and unlimited's there. The sharing nature of unlimited has played well with that base, and they were the first to signed up for a 5G phone, so very important to the retention and lifetime value of our most valuable customers.

On the CapEx front, the core of our CapEx is going to be spent on a handful of things. One is continue on the 5G front. Our view is we're—we've got good momentum in terms of our capability. The team has done a great job and well-tuned in terms of the multi-year roadmap around it. We've done a good job of negotiating great agreements with our vendors, both vendors of technology and the vendors of the civil engineering efforts, around that, and therefore, we are on a roll, and the best thing you can do when it comes to network build is keep it going and have contiguity and not have start/stop. Start/stop is the death of network build efficiency, so we're going to keep rolling on that front.

When it comes to the Cable business, we're going to keep rolling on that front both with brownfield and greenfield node segmentation. We've been doing node uplifts across our Cable business. We're roughly about half of the way through that. You see the homes passed per node has gone down dramatically over the last few years as a whole, and we've got some GPON activities and efforts underway in Atlantic Canada and where there's aerial opportunity to do so, a more—on a more attractive basis, so we're going to keep pushing on that front for the same reasons I've just described.

Third is we've seen tremendous benefit from the—our digital efforts, and we've got an even bigger appetite for some things down the road on digital, and it's not just digital in terms of service or in terms of sales as we've described today, but a whole bunch of digital opportunities in terms of better managing network capability and reliability.

Now, I'll give you an example. We've got some AI tools that every day look through the network, and because of the new Ignite gateway capability, we have an opportunity to understand what is the performance like inside the McReynolds' house, and are there issues with either Wi-Fi or devices, etc., that are causing havoc or stress to you and your family, Drew, and then we have the ability to proactively either heal those without even you knowing about it, or we will just proactively send someone to do some maintenance or support you or swap out a particular box or device proactively, so we've built these tools that are a combination of analytical tools, supplemented by machine learning engine, that gives us an even better ability to understand what's about to go into an unacceptable state for our customer and what can we do proactively, so those three things.

It's foot on the gas, and let's—to the extent that we can, let's go. The biggest question mark is—with COVID, is building permits and city planning departments, and all the things that got in our way last year. So far, so good, but those are the—kind of the question marks. Our view is the CapEx intensity that we've articulated is still intact. Think about 22% or so for Cable, and think about 12% to 15% for Wireless, so nothing's changed in terms of those zones of CI; just really focused on the areas that matter most, as you would expect us to be, and our ability to get more done for the same dollar has gone up tremendously as we have strengthened the capability of our network organization. They've done an incredible job, actually, of negotiating new contracts and getting better unit costs, so we can get a lot more done at the same CI than we could even a few years ago, so that's the CI picture, and I'll pass it to Tony on the third question.

Tony Staffieri:
On the last part of your question, Drew, in terms of—I think what you're getting at is we had stated in the past looking at servicing value from some of our significant assets that sit on our balance sheet today. We haven't lost sight of that. We continue to look at alternatives and want to be careful and very opportunistic about it, and during this COVID environment, it doesn't lend itself as an optimal time, particularly as we switch our execution focus on operating—new operating methods and processes during COVID, and so that's where the focus has been. Nothing to report new on that—on the other assets front.

Drew McReynolds:
Okay. Thanks very much.

Paul Carpino:
Thanks, Drew. Next question, Arielle?

Operator:
Our next question comes from Tim Casey of BMO Capital Markets. Please go ahead.

Tim Casey:
Thanks.

Two for me. Just one clarification. Tony, could you just revisit an earlier question about the $30 million one-time? You alluded to gift cards and things like that. Could you just walk us through what's happening practically on that related to lost activations and things like that, and second, just on your iPhone leadership, just wondering if you have enough loading of 5G to offer any early insights in what you're seeing on behaviour, and if you think that one of the—the potential for an iPhone loading, or super cycle, as it's often referred to, is that one of the things that is making it difficult for you to provide guidance this year? Is that too much of an unknown factor? Just wondering how that is influencing your thinking. Thanks.

Tony Staffieri:
Tim, I'll start with the first one.

In terms of the $30 million, as I said, it really relates to the one-time fees that typically in Q4 with a much higher volume drives a certain amount, and we just saw lower volume this quarter. I talked about activation. Implicit in there, I should have highlighted, it include HUPs as well, and so one of the things you do see are the activations, but you don't necessarily see are the hardware upgrades, and we had lower volume this quarter, much lower volume than we would have had last year in the fourth quarter.

A number of other fees; I talked about price plan changes, and then upfront promotional fees, and often, we pivot to those rather than recurring discounts, and so we've had some of those in the quarter. Some of the other fees—and we can provide you a full list—but they would be late payment fees, suspension and reconnection fees, and there are a few others that fall into that category that are down year-on-year, and so that really is the quantum of the $30 million. In some respects, the decline of some of those fees relate to our bad debt performance just being better than we expected, and somewhat better on a year-on-year perspective as well.

Then, the second part of your question, Tim, I'm not sure we got it, but maybe you could rephrase it to help us frame the response.

Tim Casey:
I'm just wondering what your expectations are for iPhone loading, and if that's a swing factor in how you're thinking about guidance.

Tony Staffieri:
I wouldn't put it in the category of material swing factor. We have a healthy mix. As Joe referred, certainly, iPhone would be at the top of the list in terms of handsets for us and the makeup of our base, but it isn't a factor from a guidance perspective for us.

Tim Casey:
Thank you.

Paul Carpino:
Thanks, Tim. Next question, Arielle?

Operator:
Our next question comes from Aravinda Galappatthige of Canaccord. Please go ahead.

Aravinda Galappatthige:
Good morning. Thanks for taking my questions.

Two on cost reduction for me, and a quick regulatory question. On the cost reduction front, we saw a 13% decline in Wireless, other Opex, yet again, as we saw in Q3. Obviously, part of it relates to roaming, but I was curious to hear, Tony, if you can talk a little bit about what component of that can be ongoing as we look at some of the progress that you've made on the digital front?

Secondly, I think, Joe, perhaps a year ago, you gave us some updates on the total Wireless COA; in particular, the P&L impact of the Wireless subsidies being somewhere in the $900 million neighbourhood, and COA probably being $400 million, $450 million. I know that you can't disclose specific numbers, but directionally, how much progress has been made on that front, and maybe the outlook from there on?

Lastly, given some of the changes to ISED leadership, is there any comment you want to make about government relations ahead of a potential decision on the wholesale front? Thanks.

Joseph Natale:
Aravinda, I'll start with your question in terms of some of the cost categories. I’ve touched on them earlier in the call. Just to reiterate, I'd put them, probably, from the Wireless side, into three categories, and I wouldn't underestimate the impact that installment plans and the related margin improvement has had. If you were to look at our 370 basis point margin expansion in Wireless, about a third of that

comes from hardware margins, and so that shift have—has been a good one for us and a good one for the industry in Canada.

The second piece relates to channel mix, and costs on channel mix have just become much more efficient, especially as we move to direct channels and digital channels, and that's coming through in, as we said, our COA and our COR, and even as volumes improve, it's a per-unit cost that has actually come down quite substantially, and so that's been helpful, and then the third is what we lump together as back-office costs, including our call centres, and so there are a number of factors in there, but if you took even just the call centres, with the migration of our base more and more to unlimited, we are seeing the reduction in call volumes, for example, that we had expected, and so that continues to drive it down.

In terms of the sustainability, other than the first one, channel mix and back-office costs, we continue to see opportunity, and they are sustainable, and similarly, on hardware margins, although those are more impacted by market conditions, and we'll continue to follow sort of how that plays out in the market, but we do believe it is an opportunity for continued improvements.

Then, on the Cable side, we're seeing much of the same in terms of categories. I'd replace hardware margin with content costs, which, in our Cable business, represents 50% of our cost structure, and what we've seen is with the Ignite platform, more of an ability to change the packaging and channel lineup so that we are dropping channels that cost us money, but aren't of interest to customers. It sounds very basic, but the teams been very particular in going through that and reducing costs. Even in the event that it's a 1%, 2%, or 5% cost reduction on an $800 million cost base, it ends up being a significant savings.

Then finally, self-install and reduction of service truck rolls, some of that is capitalized, but some of it is Opex, and so you're seeing that play out in both our capital improvements, as well as our Opex. We continue to see opportunities to continue to improve that, and so, again, I would put those in the category of very much being sustainable.

Joseph Natale:
Aravinda, I hope that helps, because just—Tony's hit the punch line. The majority of those cost changes are structural and sustainable, and that's where we focused our attention as opposed to more

temporal costs, and we're pleased with—you heard the one-third of 370 basis points in Wireless is around equipment margins, so that goes to your second question, really, which is are we seeing that subsidy ameliorate? Are we seeing better COA? You couple that with some of the channel mix that we've seen, heavy reliance on digital and Express Pickup, deliver to the home with Pro On-The-Go, etc. Every one of those is a far better COA than some other channels, so indexing there, and I think customers are really enjoying it. Our satisfaction scores are super high in each of those customer journeys. I think that they will persist far beyond COVID in terms of how we do business, so they're also structural in nature.

In terms of ISED, one of the opportunities that COVID provided to us was the ability to create a far more productive, collaborative relationship with government, both at the ministerial level and the departmental level. We've seen that cooperation all through the last year, overall. I do think that will persist. I think the common goal of how do we help support the needs of rural Canadians? How do we drive forward together between industry and government to bridge a digital divide for 10% or 15% of Canadians that don't have access to the best Internet for, really, largely economic reasons, and the return on investment in those areas is very—has been very challenging since the beginning of the telecommunications industry, so being on the same side of the table around the world, connectivity issues, I think, will bode well in terms of the nature of the collaboration and the cooperation that's there.

I'm grateful to Minister Bains for the support that he provided while he was in office. We had nothing but great discussions about the future of the industry, and I'm very pleased with the conversation I had with Minister Champagne. I think he's got an incredible background and understands the technology sector and understands the business environment, and we've had some great discussions around just what's important on a go-forward basis, and I think that at the heart of all regulatory environments is strong collaboration between the industry and government on what matters most to the future, and that's where it starts, and those are all good things.

Aravinda Galappatthige:

Thank you very much.

Paul Carpino:

Thanks, Aravinda. Arielle, we have time for two more questions.

Operator:

Our next question comes from Jérome Dubreuil of Desjardins. Please go ahead.

Jérome Dubreuil:

Yes. Thanks for taking my question.

Trying to look a bit ahead to potential recovery. First, in Cable, we've seen a nice improvement in ARPA. How would you segment the impact from price increase versus maybe other factors like your customers moving up in terms of download speeds? Then in Media, last year you said that it could be difficult to achieve positive EBITDA without game-day revenue. Now that's been better than expected, but if ever the Blue Jays can't go back to playing in Rogers Centre, do you also expect a challenge in terms of generating positive EBITDA? Thanks.

Tony Staffieri:

Thanks for the question, Jérome.

On the first one, very specific to Cable and the sustainability of ARPA increases, I think a couple of things. The price increase had, I would say, about a one-third impact of the ARPA—contributed a one-third to the ARPA increase that you saw.

The other two factors that we saw play out nicely in not only this quarter, but in prior quarters, was a reduction in promotional activity; something we've talked about in terms of trying to bring discipline to end of promotion periods and do a better job of getting customers on to a new rate plan that is sustainable rather than just renewing promotions again, and so we've been focused on, when we look at total promotions as a percentage of revenue, in bringing that down, and we're starting to see good success in the marketplace on that.

The second piece of it relates to upgrades. Not only in migrating to our Ignite TV, but also to higher speed tiers, as you would expect, and so both of those are contributing nicely to the growth in ARPA, and so it's the latter two that we're really focused on as being very much sustainable and continuing to drive ARPA growth for—throughout the year.

Your second question related to Media, I'm not sure I got it, but let me try to help. In terms of if the Jays—ideally, we're looking at—and as I talked about before, breakeven type of scenario for our Media business. The Jay's is really the big swing factor, and so if they play in Toronto, there are more advertising revenues, as you would expect, that we can garner from that, and if there are audiences, then that's a huge potential for additional revenues, even if it's a quarter or a third of ticket sales, so to the extent that they end up playing not in Toronto and back in Buffalo or somewhere else, then what we're going to see is a significant drag on our Media business. I don't want to provide too much direction in terms of what that could be just given the unknown variables, but it's a very material swing either way, and contributed part of the reason we held back on giving guidance. That was one of the big three or four items that is still just a big unknown.

Jérome Dubreuil:
Great. Thank you.

Paul Carpino:
Great. Thanks, Jérome, and thanks, everyone, for attending the call. If you have any questions, please feel free to give us a shout. Thank you.

Operator:
This concludes today's conference call. You may disconnect your lines. Thank you for participating, and have a pleasant day.